CREDIT SUISSE

American International Group Inc. (AIG)

Rating	**NEUTRAL* [V]**
Price (03 Apr 12, US$)	(from 29.00) 30.87
Target price (US$)	31.00[1]
52-week price range	34.98 - 20.07
Market cap. (US$ m)	58,556.24

**Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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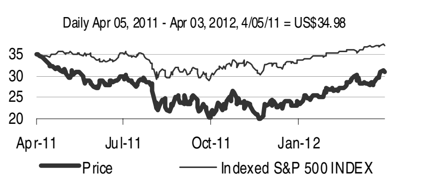
INCREASE TARGET PRICE

Sizeable Capital Management a Positive, But EPS Uplift Subdued Without a Turn in Chartis

- Following recent positive news on capital return, mixed 4Q11 fundamental results, and ahead of what should be a strong reported headline 1Q12 result, we are raising our EPS estimates and price target, but remain at a Neutral rating on the shares.
- Our new EPS estimates for AIG are $3.98 for 2012 (up from previous $2.80) and $3.20 for 2013 (vs. previous $3.13) with share repurchase assumptions of $8B (from AIA) in September of 2012 and another $6B from ML III in 1Q 13, and $4B (ILFC) in mid 2013.
- We are increasing our price target from $29 to $31. While our $3.20 estimate for 2013 would suggest a one year price target of around $34 (9x P/E on earnings plus $5 of NPV for the DTA), we apply a 10% discount to account for both the execution risk on the substantial buybacks now embedded in our EPS estimates in addition to the overhang related to government share sale overhang.
- We see improved visibility for a "clean up trade" during 2012 as it appears likely that AIG will continue to be able to monetize non core assets and repurchase shares from the US treasury, which we estimate could aggregate as much as $15-18B over the next 12-18 months.
- As to the impact of share buybacks on the AIG valuation, while it will clearly be substantially accretive to book value (up to 25%), the level of EPS accretion is less certain as the assets being sold have generally been producing returns or yields in line to slightly above AIG's core operations over the last few years.

Share price performance



On 04/03/12 the S&P 500 INDEX closed at 1413.38

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.95	1.19	-0.84	-15.99
2011E	1.30	0.69	-1.60	0.82
2012E	1.71	0.77	0.74	0.76

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (US$)	-14.69	1.22	3.98	3.20
Prev. EPS (US$)	—	1.07	2.80	3.13
P/E (x)	-2.1	25.3	7.8	9.7
P/E rel. (%)	-14.5	189.5	65.5	90.7
Combined ratio (%)	—	—	—	—
Net written premium (m)	—	—	—	—
Book value per share (US$)	—	—	—	—
P/BV (x)	—	—	—	—
ROE (%)	—	—	—	—

Number of shares (m)	1,896.87	Dividend (Next Qtr., US$)	—
BV/share (Next Qtr., US$)	—	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates.

Summary

Following recent positive news on capital return, mixed 4Q11 fundamental results, and ahead of what should be a strong reported headline 1Q12 result, we are raising our EPS estimates and price target, but remain at a Neutral rating on the shares. We see improved visibility for a "clean up trade" during 2012 as it appears likely that AIG will continue to be able to monetize non core assets and repurchase shares from the US treasury, which we estimate could aggregate as much as $15-18B over the next 12-18 months. As to how positive share buybacks will be for the AIG valuation, while it will clearly be substantially accretive to book value (up to 25%), the level of EPS accretion is less certain as the assets being sold have generally been producing returns or yields in line to slightly above AIG's core operations over the last few years.

EPS Accretion Less Certain

Our punch-line on EPS accretion from buybacks is that they will clearly magnify the EPS impact of the insurance results. In a more bearish scenario, if we assume an AIG EPS run rate of $2.00 per share, we estimate the impact of the $18B at $29 per share will be EPS neutral. Under more of a base case scenario of $2.50 to $3.00 of a core EPS run rate, the impact of the buyback would 11-18% accretion. Under the blue sky scenario of $3.50 of EPS run rate, the buyback would be 23% accretive to EPS, leading to EPS north of $4.00. With interest rates likely to continue to be a drag on both SunAmerica and Chartis earnings through 2013, the "blue sky" earnings scenario doesn't appear very likely in our view even if the Chartis combined ratio were to show 100-150 bps of improvement per year.

Raising Estimates from Capital Management and Mark to Market Gains. Increasing Price Target from $29 to $31

Although we are reducing our estimate for core insurance run rate earnings power vs. our last published view ($2.80 for 2012 and 3.13 for 2013) following a mixed 4Q11 result, the much higher deployment of excess capital into share repurchase that we are now modeling largely offsets this impact. Our new EPS estimates for AIG are $3.98 for 2012 (up from previous $2.80, mainly due to a strong market to market driven 1Q12) and $3.20 for 2013 (vs. previous $3.13) with share repurchase assumptions of $8B (from AIA) in September of 2012 and another $6B from ML III in 1Q13, and $4B (ILFC) in mid 2013. Our price target also moves from $29 to $31. While our $3.20 estimate for 2013 would suggest a one year price target of around $34 (9x P/E on after tax earnings plus $5 of NPV for the tax loss carry-forwards), we apply a 10% discount to account for both the execution risk on the substantial buybacks now embedded in our EPS estimates in addition to the overhang related to government share sale overhang.

Chartis Improvement is a Key Fundamental Catalyst. SunAmerica Faces Some Headwinds.

The key to the AIG bull case is substantial underwriting improvements in its Chartis P&C business. With underwriting results excluding cats and prior year development trending in the high 90s combined ratio, substantially worse than peer ratios in the low to mid 90s, there would appear to be room for improvement, especially with the company becoming more conservative on pricing over the last year or so. While we believe improvement should occur, continued unfavorable development from the 2008 through 2010 years combined with a drag from low interest rates should offset much of the fundamental improvement over the near term, in our view. As for SunAmerica, the earnings drag from the higher interest rate guarantee backbook for fixed annuities and UL should offset any organic growth in our view.

The "Clean Up" Trade Within Sight – A 3Q12 Event?

The fact that there is improved visibility on the "clean up" trade being within sight is an important dynamic for the AIG shares. The most bullish scenario on the clean up trade that we could envision would be a 3Q12 monetization of both the AIA and ML III stakes, and AIG repurchasing $15B of shares from the US Treasury, strategic investors buying another $5B, and another $5B offered to investors. While a $25B sale would still leave $10-$15B owned by the US Treasury, this would probably be viewed as the "clean up" trade since it would be of small enough size (vs. market cap) to substantially reduce the valuation overhang.

The capital management visibility is clearly a positive change at AIG, but we note that the execution of this isn't without risk as the proceeds from the sale of the remaining AIA stake are dependent on market conditions. The ability to monetize AIG's stake in ML III depends on the appetite for credit risk on the related assets remaining buoyant over the course of 2012, while a monetization of ILFC is also subject to market conditions. The ML II portfolio was in the $8-9B range at year end 2011 and was fully liquidated during 1Q12 while the size of ML III was about 2x the size at about $18B at year end 2011 (government loan is $10B), and the assets are primarily a more esoteric CDO structure vs. the straight subprime, RMBS, and CMBS assets that were in ML II. Thus even with a solid bid in the credit markets it may take longer to fully liquidate the ML III structure. Despite the more esoteric structure, our understanding is that there would still likely be healthy demand in the market for this type of asset class, thus if market conditions remain favorable, it's possible that AIG monetizes this investment ahead of our 1Q13 estimate.

Stat Capital a Better Indicator of Book Value

Given the ambiguity associated with AIG's GAAP book value, we look at the Company on a statutory basis, a more conservative/standardized way to evaluate the company's capital position that includes minimal amounts of intangible assets and DTAs. We calculate statutory liquidation value for AIG to be $30/sh, which considers that 60% of ML III capitalizes MG Re (included in Chartis' statutory capital) in addition to ~$3/sh associated with DTAs. We also use holding company cash of ~$5.4b, derived from $9.8b of cash and short term investments reduced by $4.4b of parent company cash attributable to the MIP/available to meet DIB obligations. At $30, AIG currently trades at about statutory book value. If we assume that AIG sells AIA, ML III and ILFC (and uses 60% of proceeds from ML III to keep MG Re capitalized at current levels) and uses total proceeds of ~$14-15b to repurchase shares, we see statutory book value per share increasing 10-13% to ~$33-34 a share. This compares to current GAAP book value of $55/sh ($53/sh excluding AOCI).

What Will Non Bank SIFI Mean for AIG?

With MET having difficulties managing capital as a result of CCAR, a reasonable question to ask is will AIG also have difficulty as it likely also joins the CCAR annual testing as a non bank SIFI starting in 2014? This may limit the amount of annual buybacks allowed starting in 2014 as the CCAR generally allows 50-70% of earnings to be the maximum used for common dividends and share repurchase, but on a positive note, if bank ratios are used as any part of the annual capital thresholds, we estimate that AIG would be comfortably above all of the minimum thresholds. While we don't view that test as an appropriate apples to apples comparison, as AIG screens well mainly because P&C companies operate with lower asset leverage than life insurers and banks, nonetheless, it screens as highly capitalized under the pertinent bank ratios. This suggests that even under the Fed's watch, AIG currently screens well under the stress tests and therefore implies that capital return will be largely dependent on the company's earnings generation.

We estimate that a sale of AIA and ML III will cause a slight decrease on the tier one common ratio, as we suspect that the decrease in tier one common equity from the asset sales will only be partially offset by a decrease in risk weighted assets (we think that these assets likely carry higher risk charges). In addition to decreasing RWAs, the exclusion of these assets from the stress test itself should reduce the pretax loss in a stress scenario, limiting the decrease in tier one capital. Our stressed scenario suggests that AIG will remain well above the 5% tier 1 capital threshold and is consistent with recent comments made by the company. It's also important to note that AIG's negligible goodwill balance, $9b in hybrid debt, and $20b DTA help AIG screen better on the tier one leverage ratio and tier 2 risk based capital ratio, the two metrics that triggered a CCAR failure for MET.

Despite the solid stress test results, once designated as a SIFI we believe there is some uncertainty with regards to how the Fed would view share buybacks assuming AIG absorbs a portion of the Treasury's remaining ownership stake. However, with non bank SIFI designation to come later this year and ultimate Fed supervision to come in late 2013, we think AIG has ample time to shed remaining non core assets and repurchase shares. In particular, we think a first half 2013 IPO of ILFC and sale of ML III will provide $3.5b and $6b in proceeds respectively.

Detail

1Q12 Update

The first quarter of 2012 should be solid for AIG considering strong capital markets performance (which includes AIA up 16% in the quarter on AIG's ~$8b remaining stake following the recent offering), above plan hedge funds and Private Equity returns (reported on a one month and three month lag, respectively, providing solid visibility given market performance in 4Q11), and solid structured product returns for AIG's $5.7b stake in ML III (we estimate up 6% during the quarter), partially offset by some earnings give up resulting from the sale of a portion of AIA. In addition to the impact of solid capital market performance on results, there was generally a light level of catastrophes during the quarter, which should be reflected in a better headline combined ratio in Chartis.

We are increasing our 1Q12 estimate from 71c to $1.71 to reflect the above plan returns in non core assets, the ML II gain (realized a $300mm pretax gain on the sale which will be reflected in SunAmerica), and the $3b share repurchase. Additionally, we are increasing our 2Q12 estimate from 69c to 77c to reflect strong returns on alternative investments, which we see providing a similar boost to EPS as in 1Q12 as they are reported on a lagged basis.

Exhibit 1: 1Q12 EPS Update

in millions, unless otherwise stated

	12/31/2011 Book Value	3/31/2012 Estimated Book Value	New Pre-tax Contribution Estimate	Old Pre-tax contribution estimate	Previous Post-tax Estimate contribution/sh	New Posttax Estimate contribution/sh	Q1 Earnings Delta	New Quarterly Runrate
MLII	1,300	-	300	16	$0.01	$0.12	$0.11	$0.00
MLIII	5,700	6,042	342	128	$0.05	$0.14	$0.09	$0.05
AIA	12,367	8,200	1,864	300	$0.11	$0.75	$0.63	$0.07
Alts	18,793	19,545	808	423	$0.16	$0.32	$0.16	$0.17
Shares	**1897**	**1794**			**$0.33**	**$1.33**	**$1.00**	**$0.29**
Old Q1 EPS	**$0.71**							
New Q1 EPS	**$1.71**							

Source: Company data, Credit Suisse estimates

The True Meaning of AIG's GAAP Book Value

A bull case for why AIG's stock will work is the increase in GAAP book value per share in addition to potential multiple expansion as ROEs improve. However, we think that various factors have clouded the actual meaning of GAAP book value of the company.

The majority of AIG's GAAP book value was created through the UST's conversion of its preferred shares and credit facility into AIG common stock. Specifically, the Treasury converted its credit facility into 1,700mm shares at ~$45/sh, creating approximately $75-$77b of equity. It is unclear to us if $45/sh was thought to be the intrinsic value of the stock, but nonetheless the majority of the proceeds from the equity conversion was paid to AIG's counterparties rather than kept on balance sheet as retained capital that could be used for funding growth, buyback and dividends. We also note that the release of a portion of the valuation allowance against the DTA immediately increased book value by almost $20b, although AIG will not realize the true economic benefit of the release for many years out into the future.

We suspect that AIG's book value is somewhat arbitrary as it was set by the UST's conversion and we do not think it correlates as closely to the true economic value of the company as other insurers. Typically, the majority of a company's book equity value is comprised of retained earnings (accumulated gains from operations) or proceeds from an equity raise (common stock and additional paid in capital, which in efficient markets should generally be close to intrinsic value), both of which are approximations of and highly correlated to economic/intrinsic value.

Because of the questions with regard to the meaning of book value, we think investors will gravitate more towards valuing shares not only on earnings but also on statutory book value.

Statutory Capital

Given the ambiguity associated with AIG's GAAP book value, we look at the Company on a statutory basis, a more conservative/standardized way to evaluate the company's capital position that includes minimal amount of intangible assets and DTAs. We calculate statutory liquidation value for AIG to be $30/sh, which considers that 60% of ML III capitalizes MG Re (included in Chartis' statutory capital) in addition to ~$3/sh associated with DTAs. We also use holding company cash of ~$5.4b, derived from $9.8b of cash and short term investments reduced by $4.4b of parent company cash attributable to the MIP/available to meet DIB obligations. At $30, AIG currently trades at about statutory book value.

Exhibit 2: AIG Statutory Liquidation Value Calculation
in millions, unless otherwise stated

	AIG Statutory Book Value	Notes
Statutory Surplus	53,749	As of YE11
+ ILFC	3,500	
+ AIA	8,200	
+ ML III	2,280	60% of ML III Capitalizes MGRe
	67,729	
- Financial Debt	23,927	Inlcudes Financial Debt and Jr. Sub Debt
+ Cash	5,403	Excludes $4.4b of holdco cash attributable to the MIP
Net Stat Book Value	49,205	
shares	1,794	
Stat BV/ Sh	27	
DTA/sh	3	
Stat BV/Sh incl. DTA	30	

Source: Company data, Credit Suisse estimates

If we assume that AIG sells AIA, ML III and ILFC and uses the total proceeds of ~$18-19b to repurchase shares at $29/sh, we see statutory book value per share increasing 10-13% to ~$33-34 a share.

Exhibit 3: Statuory Liquidation Value, Assuming All Proceeds from Asset Sales Used to Repurchase Stock
in millions, unless otherwise stated

		Notes
Statutory Surplus	53,749	As of YE11
- Financial Debt	23,927	Inlcudes Financial Debt and Jr. Sub Debt
+ Cash	5,403	Excludes $4.4b of holdco cash attributable to the MIP
Net Stat Book Value	35,225	
shares	1,150	Following buyback
Stat BV/ Sh	31	
DTA/sh	3	
Stat BV/Sh incl. DTA	34	

Source: Company data, Credit Suisse estimates

Buybacks: Just How Good Are They?

One of the bull cases for AIG stock is the GAAP book value accretion associated with buying back stock with the proceeds from the sale of the non-core assets. We think that while clearly accretive to GAAP book value, the EPS impact is less clear due as a result of the earnings give up from non-core assets.

Buybacks are very accretive to GAAP book value given the discount to book at which AIG shares currently trade. For example, if we ascribe a $17-$19bn of value to AIG's remaining monetizable assets (AIA, ILFC, and ML III) and assume AIG uses the proceeds from the sales to repurchase stock at the government $29 break-even price, we calculate GAAP book value to increase by 23-27%. However, given where the stock trades relative to statutory liquidation value of roughly $30 per share, buyback is much less accretive on a statutory basis (which we estimate to be 10-14% accretive).

On the earnings front, selling non-core assets and using the proceeds to buy back stock has a mixed impact on EPS (and increases the importance of core insurance results). This is because the assets AIG is selling generate higher returns relative to the underlying business (estimated at 9%/yr), which in effect must be replaced by earnings on the core businesses. In a bear case, with AIG earning about $2/sh, an $18b buyback at $29/sh does not have a meaningful impact on results (roughly neutral to EPS). In a base case scenario with EPS of $2.50-$3.00, the same $18B buyback will result in 11-18% EPS accretion. Under the blue sky scenario of $3.50 of EPS run rate, the buyback would be 23% accretive to EPS, leading to EPS north of $4.00. While buybacks are accretive to EPS, we note that they are not as accretive as they are to book value, reflective of the EPS give up.

Exhibit 4: EPS Accretion of $18B Share Repurchase (executed at $29/sh) Under Bull, Base and Bear Cases

	Bear	Base	Bull
EPS Run Rate	$2.00	$2.50-$3.00	$3.50
EPS Accretion	0%	11-18%	23%

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 03 Apr 12)*
American International Group Inc. (AIG, $30.87, NEUTRAL [V], TP $31.00)
MetLife, Inc. (MET, $37.68, OUTPERFORM, TP $44.00)

Disclosure Appendix

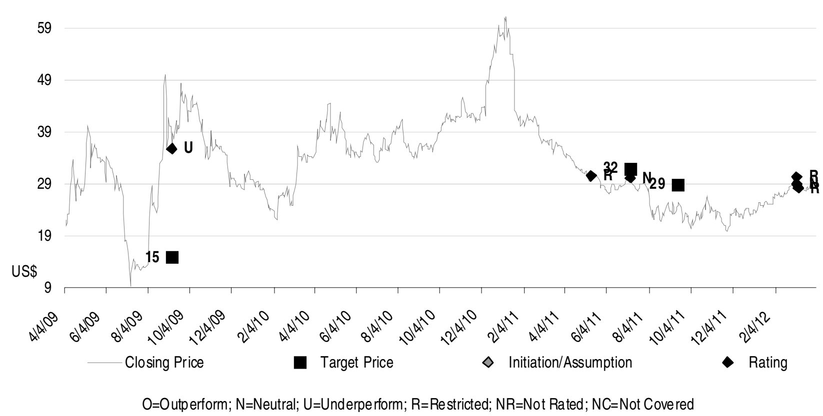
Important Global Disclosures

I, Thomas Gallagher, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

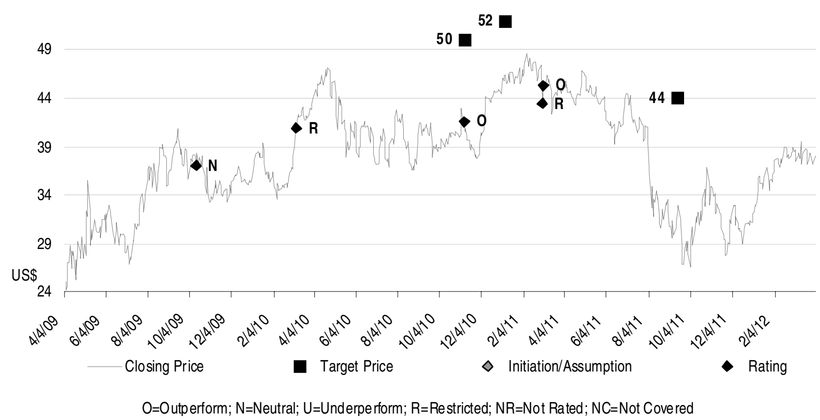
3-Year Price, Target Price and Rating Change History Chart for AIG

AIG Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
9/8/09	35.85	15	U	
5/11/11	30.65		R	
7/7/11	30.21	32	N	
9/14/11	24.49	29		
3/5/12	30.39		R	
3/6/12	29.05		N	
3/8/12	28.31		R	



3-Year Price, Target Price and Rating Change History Chart for MET

MET Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
10/13/09	37.04		N	
3/8/10	40.9		R	
11/8/10	41.59	50	O	
1/6/11	46.38	52		
3/2/11	43.41		R	
3/3/11	45.25		O	
9/14/11	31.19	44		



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Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

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Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a*

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Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.
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***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Neutral/Hold*	42%	(57% banking clients)
Underperform/Sell*	10%	(53% banking clients)
Restricted	2%	

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See the Companies Mentioned section for full company names.
Price Target: (12 months) for (AIG)
Method: Our $31 target price reflects a 9x multiple to our 2013 EPS estimates and $4-$5 per share for the DTAs, discounted at 10% to account for the overhang from the remaining government investment in AIG.
Risks: Risks to our $31 target price for AIG include the overhang related to the UST's liquidation of its remaining stake in the company, limited ROE growth, adverse reserve development on P&C reserves, and potential earnings dilution in the event of a share issuance.
Price Target: (12 months) for (MET)
Method: Our $44 target price is based on a blended 8.9x 2012 P/E and a 1.1x price to book ex. Accumulated Other Comprehensive Income multiple.
Risks: The major risks to achievement of our $44 target price for MET are continued low interest rates, and adverse selection at the life insurance product level. Another risk is ALICO integration risk and systems risk. Credit risk from MET's holding of Alt-A RMBS and commercial real estate are additional risk factors.

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Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (AIG, MET) within the past 12 months.
Credit Suisse has managed or co-managed a public offering of securities for the subject company (AIG, MET) within the past 12 months.
Credit Suisse has received investment banking related compensation from the subject company (AIG, MET) within the past 12 months.
Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (AIG, MET) within the next 3 months.
Credit Suisse has received compensation for products and services other than investment banking services from the subject company (AIG, MET) within the past 12 months.
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